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THE FARMERS' ELEVATOR MOVEMENT

II

A. THE ORGANIZATION OF FARMERS' ASSOCIATIONS OF GRAIN-DEALERS

The continuous opposition of the large grain interests to the farmers' companies was largely, if indirectly, instrumental in hastening the rapid extension of the farmers' elevator movement. The boycotted commission firms felt very keenly the effects produced on their business by the work of the regular grain trade. Their sense of justice, however, prevented them from participating in this organized attempt to root out completely the farmers' elevator movement, and thus bring about a virtual monopoly of the country grain-buying. For these commission firms, also, the field of operation became very limited. Their only hope of again building up prosperous businesses lay in broadening that field, and the farmers' elevators constituted the field. These commission firms then began to co-operate actively with the farmers' elevators to bring about a rapid spread of the movement.

The existing farmers' elevators realized that their salvation lay in organizing themselves so that, by united action, they would become powerful enough to command respect and authority. It soon became entirely evident that a central organization of some kind would be necessary.

The first association to be formed was the Illinois Farmers' Grain Dealers' Association, which was organized at Springfield in 1903 by the fifteen farmers' elevator companies of the state. This was followed the next year by the organization at Rockwell of the Iowa association with about twenty members. The benefits of these associations were immediate, especially in the mutual assistance rendered and the encouragement given to the establishment of new companies. In this building-up of new companies, they received valuable support from the boycotted commission firms, who had begun to realize that their fortunes also depended

upon an increase in the number of farmers' elevators. They therefore became actively engaged in helping the work of organizing new companies. A member of one of these commission firms stated that he had traveled almost continually for three years, during which time he was busily engaged in organizing farmers' elevator companies. During this time he spoke at about 175 different places, and everywhere, after explaining the situation to the farmers, he found them ready to establish elevator companies. In only two or three cases did they fail to organize after the matter had been explained to them. This campaign, conducted by this one commission firm, was said to have cost \$15,000 to \$20,000.

It was the strong opposition of the regular grain-dealers which had caused the organization of both the Illinois and the Iowa state associations. It was also this opposition which had developed the active campaign for more farmers' elevators on the part of the boycotted commission men. All these forces acting together soon developed a movement which attracted widespread attention. Most men at all acquainted with it at the time the state association of Illinois was organized had not a great amount of confidence in its success. Among its staunchest supporters there were but few who could do more than hope that it might be a permanent force in the grain trade, and ultimately be able to free the farmer from the tyranny of the grain monopoly.

Within two years of the organization of the Illinois association the situation had taken on an entirely different aspect. From the few weak and struggling companies which constituted the organization in 1903 it had by 1905 grown into a powerful union of over 125 strong and prosperous companies. It then became a force which had to be reckoned with in the grain trade. In Iowa also the movement was spreading very rapidly. It is reported that in 1905 there were at least 78 farmers' elevator companies in operation in that state. The rapid increase in the number of elevators was due largely to the assistance which the state associations could give to companies that were in the process of organization. With the assistance of the state associations only a few months at most would be required for organizing a new company and getting it ready to start its work, while it took from one to two years to

organize and launch a company before the state associations had begun their work. The state associations would frequently be in a position to help a company secure a favorable elevator site from a railroad, or to lend assistance in various other dealings with railroads. The Illinois association, for example, helped the farmers' elevator company at Mazon to get a sidetrack to its elevator. In order to do this it was necessary to engage in a severe fight with the Cleveland, Cincinnati, Chicago & St. Louis Railroad.

A general idea of the character of the work undertaken by a state association may be obtained from the following account of the work which was being done in 1912 by the Nebraska association:

Three definite things are under way at the present time. Sane, practical work is being done to reduce the useless waste of losses of grain in transit by reason of leaky cars. A systematic investigation of the insurance situation in the state is being made with a view of carrying mutual insurance and thereby lessen the cost at least one-half of the present cost. The matter of consideration of shippers' rights in terminal markets is also being worked on.¹

The annual meetings of the state associations also became very important agents in bringing about the spread of the movement and in strengthening the existing companies. These meetings, lasting two or three days, were enthusiastic gatherings of delegates from most of the farmers' elevator companies in the states in which the meetings were held. Delegates from companies already organized here met visitors seeking information; the state officers, especially the secretaries, were largely engaged in field work and they were on hand with authoritative advice and information. The practical questions involved were thoroughly discussed by delegates, by officers, and by outside men expert in their respective departments. There was noticeable among all a spirit of singular sincerity and earnestness with a keen determination to make the movement a success. Such meetings inevitably kindled an effective enthusiasm and led to activity more zealous than ever before. Resolutions would also at times be passed giving the sentiment of the convention on measures which were being considered by our law-making bodies. The Iowa conventions have also sent delegates

¹ *American Co-operative Journal*, VIII, 101.

to Des Moines to urge the passage of a reciprocal demurrage¹ bill through the legislature. The enactment of such a bill into law would have an important influence upon the work of farmers' elevator companies, as cars would then be moved with considerably greater rapidity and the car famine would thus be relieved to a considerable extent.

In these various ways the state conventions became very important factors in bringing about a strengthening of the movement and also in causing its more rapid spread. The work of the conventions directly, and also the work done by them indirectly through the officers which were there elected, was instrumental in bringing about the organization of a large number of new companies annually.²

¹ Demurrage is a charge which a railroad company makes for each day that a shipper or receiver detains a car over 48 hours. Reciprocal demurrage requires that cars be delivered at loading stations in rotary order within a prescribed time after the cars have been ordered. The orders are to be numbered and receipts given to the persons ordering the cars. The cars shall be loaded within 48 hours, then moved from the sidetrack within 24 hours, moved toward destination at a specified rate of speed, placed at destination within 24 hours, and relieved by consignee within 48 hours after being placed; consignee to be paid \$1.00 per day by the transportation company for each infraction of these provisions.

The demand for reciprocal demurrage arose from the car famines, which the farmers believed to be due to a considerable extent to the favoritism which was shown to certain shippers who were permitted to hold cars for a long time without paying demurrage while others would be unable to secure cars. This belief was founded largely upon various investigations which had been made, as, for example, one made in Minnesota by the St. Paul Board of Trade (*American Co-operative Journal*, February, 1906, p. 15). This investigation revealed an extensive system of rebates and favoritism which was practiced by the railroads of Minnesota. The investigators went into the railroad yards at Minneapolis and St. Paul and found that it was a common practice to allow large numbers of loaded cars to remain on track from five to one hundred days free of demurrage while the wheat-shippers in the Northwest were clamoring for cars in which to ship their wheat to market. During this time the common shipper was compelled to pay a demurrage of \$1.00 per day if he detained a car over 48 hours.

² The *American Co-operative Journal*, first issued in 1905, became a very powerful agent in the advancement of the movement. It was ably edited by a man who was intimately acquainted with the problems and practices of farmers' elevators. The operations of the regular grain-dealers in their opposition to the movement were boldly exposed; the need of establishing farmers' elevators was put forth in convincing arguments; advice was given as to how a new company should be organized in any community, and assistance, so far as possible, was also given to bring about the development of new companies and the strengthening of the old.

The farmers' elevator movement was now becoming so strong that all the efforts of the regular grain-dealers' associations to root it out appeared to be futile. They realized, however, that the keystone of the whole structure was the penalty clause, or protection clause, which most companies had incorporated into their by-laws. If that could in some way be removed they felt that even yet it might be that the whole structure would fall in a heap of ruins. They therefore centered all their attacks finally upon this point. They declared that the introduction of this feature was "unfair, unjust and un-American."¹

They also attacked the legality of the clause, maintaining that it created a monopoly and so was contrary to the anti-trust acts that had been passed by many states. When his opinion was asked on this point, however, Attorney-General H. W. Byers of Iowa replied as follows:²

As I read the articles and by-laws of the farmers' elevator companies the very purpose of their organization is to protect their members from the operation of the so-called "grain combines" in Iowa, and to furnish them facilities for getting their grain into the open market at the least possible expense. There is absolutely nothing in the plan that even squints at fixing the price of grain, or in any manner preventing the freest competition among buyers and sellers of grain.

I therefore conclude:

First: That the agreement upon the part of the members of co-operative grain companies to pay a certain per cent upon sales of grain made to other dealers is a legal and binding agreement.

¹ During the testimony before the investigation committee of the Interstate Commerce Commission, Franklin K. Lane had the following to say about the penalty clause: "Well, now, what is the difference between that and this sort of an arrangement made between you and myself: You agree to sell me all your grain for this season, and if you do not you agree to pay me a certain amount as liquidated damages. That agreement could be made between us, couldn't it, and made between a lot of men? These arrangements are made every day, aren't they? It is simply an agreement by which the farmers who stand together agree to sell to this company, and if they do not sell to this company, then they pay something because the elevator will be at a loss. They make something good. Then there is a different system, which, as I understand it, is purely co-operative, by which they pass the grain through the elevator and then assess themselves for the proportional cost" (Senate Document, No. 278, 59th Cong., 2d sess., p. 678).

² *American Co-operative Journal*, VII, 342.

Second: That there is nothing in the Stillman anti-trust grain law, passed by the Thirty-second General Assembly, that will make it unlawful for co-operative grain companies to operate under the so-called "protection" or "penalty clause."¹

During the latter part of the year 1911 suit was brought in the Circuit Court at Monticello, Illinois, to annul the charter of the Farmers' Grain Company, alleging that the penalty clause in the by-laws was a restriction of trade and against public policy. Judge Cochran, who heard the case, said the by-laws were not in restraint of trade, and not against public policy. A farmers' company, if incorporated, is a private corporation and such an arrangement among its stockholders is not in restraint of trade. It is a private corporation not impressed with the public use. It has not restrained trade, but has added 25 to 50 per cent to the business of every merchant in the town. The business of a competitor may have been injured but a competitor is the middleman, not the public.²

Thus the attacks made upon the legality of the penalty clause proved to be groundless and of no avail as a means of destroying the movement. On the other hand, they seemed rather to strengthen the faith of the farmers in the clause and in the movement.

Another line of attack upon the penalty clause, made by the associated grain-dealers, was to assume an appearance of favoring the farmers' elevators which were organized without such a clause. The following letters of the Secretary of the Iowa Grain Dealers' Association show a decided change in attitude within a period of less than two years:

DES MOINES, IOWA

August 15, 1904

Eschenberg & Dalton
Chicago, Ill.

GENTLEMEN: I wish to advise you that the Manly Grain Company of Manly, Iowa, and the Farmers' Co-operative Society of Dougherty, Iowa, are not recognized as dealers by this association.

It was openly stated in a meeting of grain-dealers recently held at Mason City, that you were receiving this business. If it is not true I would be glad

¹ *American Co-operative Journal*, VII, 342.

² *Ibid.*

to have you write me a letter to that effect and I will place a copy of that letter in the hands of every dealer that attended that meeting, in order that there may be no misunderstanding in regard to the matter that will be to your detriment.

Awaiting your reply, I am

Yours truly,

GEORGE A. WELLS, *Secretary*

The following is a circular issued June 7, 1906:

To Bidders and Receivers:

I give below a complete list of all farmers' elevator companies in the state of Iowa that conduct their business on a competitive basis, or in other words, who are not doing business under the penalty clause plan.

I desire to recommend these companies to the grain trade in general and would suggest that if you have not already done so that you write each a personal letter soliciting their business. I would be very glad to have you mention in your letter to them the fact that you are writing them on my recommendation.

This list will be revised from time to time in accordance with conditions.

The list is as follows, to-wit:

[Then follows a list of twelve farmers' elevator companies.]

Respectfully,

GEORGE A. WELLS, *Secretary*

At the time the first letter was written all co-operative companies were under the ban, whether they were organized under the so-called penalty clause or not, but in spite of this the number of companies in Iowa had increased during the two years from 30 to 175. When Mr. Wells found that he could not ruin the companies having the penalty clause, he sought to establish friendly relations with those which did not have it, hoping to get others to abandon the clause, and also hoping that many farmers' elevator companies could then be persuaded to join the Iowa Grain Dealers' Association. It is of interest to note that the list in the circular letter included the Manly Grain Company. In 1906 its trade was to be solicited by commission firms because it did not have the penalty clause, while in 1904 no commission men were to be permitted to receive its shipments because of the fact that it was a farmers' company, regardless of the methods of organization.

The following letter,¹ written to farmers' elevator companies, shows a means adopted to gain the good will of these companies:

There seems to have been a misunderstanding with reference to the attitude of the Iowa Grain Dealers' Association toward the farmers' elevator companies, and in order that this misunderstanding may be corrected and that the attitude of this association may be thoroughly understood by the grain trade, I have mailed to all terminal dealers a letter, a copy of which I inclose herewith, and your company is included in the list as conducting business on a regular competitive basis as mentioned in that letter.

We would be glad to have you make use of this association along lines of its objects and purposes outlined in the above heading, whether a member or not.

If you have shortages in terminal markets, claims against railroad companies, differences with terminal dealers, scales to inspect and repair, let us hear from you; possibly we can do you some good.

Yours truly,

GEORGE A. WELLS, *Secretary*

These efforts to win the farmers' elevators proved to be very little more successful than former efforts which had been put forth. Through the action of the officers and manager of one farmers' elevator, Mr. Wells succeeded in getting that company to join the Iowa Grain Dealers' Association and pool prices and divide receipts on the same basis as was being done by the regular dealers. This incident was given wide circulation with the hope that it would serve to induce other farmers' companies to take similar action. At one other place Mr. Wells succeeded in getting a banker, who had been honored by being made president of the farmers' company, to introduce a resolution condemning the protection clause as "unfair, unjust and un-American." But the farmers, on the whole, were firmly convinced that it would be to their best interests to have as little as possible to do with the Iowa Grain Dealers' Association. The victories gained by Mr. Wells in this manner were rather insignificant; but we find that similar practices were later adopted by the Kansas Grain Dealers' Association, and a number of farmers' elevator companies were there induced to join the regular dealers.

One of the most disgraceful attacks of the regular grain-dealers upon farmers' elevators was made against the Farmers' Elevator

¹ *American Co-operative Journal*, VI, 1684.

Company of Gowrie, Iowa, during the time when the boycott was at its height. At this time the company was able to transact its business only by keeping secret the names of the firms with which it had dealings—both the firms to which it made shipments and also the firms from which it received the various supplies which it handled.

In the hope of learning these secrets, the grain combine persuaded a young man, one Richard M. Funck, to purchase shares in the farmers' company. Being then a stockholder, he at once demanded that the books of the company be opened for his inspection. When this privilege was denied him, he brought suit against the elevator company. Appeal was made to the Supreme Court of Iowa, which in handing down its opinion¹ declared well proved the existence of an organized boycott against the defendant, and a system of espionage over the actions of the defendant so complete that the latter could do business only secretly and by adopting a system of initials and reconsignments. The decision censures the plaintiff, and adds: "It is true that the plaintiff asks nothing in this case that is of itself illegal. But must the court aid in a conspiracy to its final goal simply because it travels this part of the way over a legal highway? We think not."

In spite of the various kinds of opposition which confronted it, the farmers' elevator movement continued to grow and spread steadily into the states of Minnesota, Nebraska, Kansas, South Dakota, North Dakota, Wisconsin, and Indiana. As the movement has grown in a state there has arisen a demand for a state association. At present all the above states, with the exception of Wisconsin and Indiana, have state associations. As early as 1903 the Nebraska companies organized as the Nebraska Farmers' Co-operative Grain and Live Stock Association. The last states to form associations were North Dakota and Kansas, the former in 1911 and the latter in 1913. All the later organized state associations have taken up lines of work similar to those already described as being undertaken by the associations of Illinois, Iowa, and Nebraska. They have likewise been instrumental in spreading the movement and in strengthening the cause.

¹ 142 Iowa 621.

Table III will give an idea of the spread of the movement in the various states.¹

TABLE III
SHOWING THE NUMBER OF FARMERS' ELEVATORS IN DIFFERENT STATES, 1903-13

	1903	1904	1905	1906	1907	1908	1909	1910	1911	1912	1913
Illinois.....	15	90	125	125	150	170	170	225	300	300	300
Iowa.....	7	30	78	175	200	209	250	300	324	347	347
Minnesota.....				150	168	178	205	224	240	277	307
North Dakota.....				85	85	85	85	300	350	350	350
South Dakota.....				100	100	100	150	200	200	220	220
Nebraska.....						140	160	200	200	200	200
Kansas.....											32
Total.....	22	120	203	635	703	882	1,020	1,234	1,564	1,694	1,756

While this rapid increase in the number of farmers' elevators was taking place, we find that the fortunes of the regular grain-dealers had met with some trying reverses. After the Iowa Grain Dealers' Association had made its fruitless attacks upon the farmers' elevator companies, it was reorganized and assumed the name Western Grain Dealers' Association, Mr. Wells continuing to act as secretary. At a meeting of the association, held at Des Moines, July 13, 1910, there were forty-two members present. In his report Mr. Wells said: "It will be readily understood that with a membership of 500 elevators now, as compared with 800 elevators five years ago, our income has been materially reduced, and in fact our deficit last year was about \$600."² In another connection Mr. Wells stated: "We have noticed with much concern that a considerable number of the country elevators are becoming more or less dilapidated."³ All these things pointed to a decreased prosperity of the regular grain-dealers due to the rise of farmers' elevators. No serious opposition could longer be offered to the work of the farmers.

The attitude of the commission men in the terminal markets toward farmers' elevators was also changed decidedly when the

¹ The figures in the table are not in all cases strictly correct but are approximately so. Accurate statistics are not available. In cases where the figures for a given year are missing, the figures for the preceding year have been inserted. The table is compiled from reports of annual meetings of state associations, as published in the *American Co-operative Journal*.

² *American Co-operative Journal*, VI, 1822.

³ *Ibid*.

movement gave promise of permanent success. It no longer became necessary for the farmers' elevator to search diligently to find a firm willing to accept its consignments. The few commission men who had remained true to the farmers' elevators during the darkest hours soon had a very prosperous business established with them—so prosperous, indeed, that before long the commission firms which had yielded to the boycotting practices of the regular dealers decided that they could better afford to give up the regular trade than that of the farmers' elevators if it became a question of giving up the one or the other. Representatives of a large number of commission firms were to be found at every annual convention of a state association. These men were actively engaged in soliciting the trade of farmers' elevators for their respective commission houses. As early as 1906 it seemed that the commission houses which had hitherto refused to handle the farmers' grain experienced a change of heart, and were doing their utmost to secure the farmers' business. In 1911 the *American Co-operative Journal* published a list of no less than twenty-seven commission firms in Chicago alone which were soliciting business from farmers' elevators.

Continuing the work of organization begun with the creation of the state associations, the managers of the elevators, upon whom the success of the individual companies largely depends, have joined hands in a central body. After various irregular meetings the "National Managers' Association of Farmers' Co-operative Companies" was organized regularly in 1911 at Chicago. At Minneapolis in 1912 the "National Council of Farmers' Co-operative Associations" was formed. This is an organization composed of secretaries and delegates of the state associations, and will undoubtedly play a large part in extending the influence of the farmers' companies in national affairs.¹ It will also aid the state associa-

¹ Men representing farmers' elevators went to Washington and had set aside the resolution of Dr. Wiley relating to heating or otherwise deteriorating grain. The resolution provided that such grain, on reaching its destination, should be seized by the government and destroyed without reimbursing the shipper, who must, nevertheless, pay the freight. The setting-aside of this decision would greatly help the farmers. Similarly men also appeared and hindered the railroads from increasing freight rates one cent per hundred pounds on all grain originating in Illinois. All affairs of this kind will in the future be attended to by the National Council, which acts as a representative of the different state associations.

tions directly through the expert advice and assistance furnished by its departments of transportation, markets, legislation, and education.

B. THE INDIVIDUAL FARMERS' ELEVATOR AS A BUSINESS ORGANIZATION

We have now considered the work and development of the farmers' elevator movement in its broad and general aspects. The whole movement, however, rests upon the individual farmers' elevator. Unless the work of such an elevator is worthy, the whole farmers' elevator movement has little to commend it. It is therefore proper that we, at this point, take up a consideration of the individual elevator and its work.

A farmers' elevator company is organized as a corporation and is usually incorporated under the laws of the state in which it happens to be located. The customary corporation officials are elected, namely, a president, vice-president, secretary, treasurer, and a board of directors varying in number but usually consisting of from five to nine men.

The capital of a company is ordinarily about \$10,000. Shares of stock are issued and sold by the corporation. The par value of a share is usually \$25 or \$50. The number of shares which may be issued to one person is frequently limited so that the total investment of any individual shall not be more than \$200-\$500, varying in different companies. Frequently each share owned by a person entitles him to a vote at a meeting of the stockholders, but the number of votes that may be cast by any individual is generally limited, regardless of the number of shares he may hold. In other cases each stockholder is entitled to but one vote irrespective of the number of shares in his possession.

These provisions, limiting stockholdings and voting powers, are inserted into the by-laws to guard against any one person's gaining control of the corporation and thus attempting to manage it for private gain instead of for the mutual benefit of the shareholders and the farmers of the community who have grain to market. Experience has shown that these provisions have been valuable safeguards. One instance has already been cited of an attempt

to learn the secrets of the company through securing stockholdings. There are also other instances in which competing line elevator men have made considerable purchases of stock after it has been issued, such purchases being beyond the control of the company. If there were then no limitations placed upon voting beyond the amount of stock-holdings it would be comparatively easy for an individual to gain a controlling interest, and thus prevent the farmers' elevator company from carrying out its plans. Some companies also place restrictions upon the transfer of stock, requiring the consent of a majority of the board of directors in case a stockholder wishes to transfer his shares to another individual. In case the consent of the directors is not granted, provision is made for the purchase of the stock by the company at a fair price.

The holding of stock in the corporation entitles an individual to share in the profits. In many cases dividends are declared and all the profits which the company sees fit to distribute are divided among the stockholders strictly according to stockholdings. In such cases the distribution of profits is identical with that of the ordinary corporation.

In a number of cases, however, attempts are made to distribute profits on a co-operative basis. Farmers' elevators are organized for mutual benefit and not for private gain. They are also frequently called co-operative companies, and some have the word "co-operative" included in the legal name of the corporation. For these reasons it seems that attempts to distribute earnings on a co-operative basis would accord most nearly with the principles upon which a farmers' elevator company is organized. Mr. Millard R. Myers, editor of the *American Co-operative Journal*, states that about 10 per cent of the companies distribute their profits on a co-operative basis, and accounts for the low percentage of companies doing so by the fact that very few states provide for the incorporation of companies which are to operate on a co-operative basis. Recently, however, additional states have made provisions for this type of organization. Nebraska and Wisconsin have had such laws for some time and the legislature of South Dakota passed a "co-operative law" in 1913.

In case a company operates as a co-operative concern a definite return is granted to each shareholder. This is not intended to be a dividend, but merely interest on the capital invested. The rate of return thus allowed will be governed by the prevailing interest rate in the community, ranging from 7 to 8 per cent in Illinois and Iowa up to as high as 12 per cent in the Northwest.

The earnings remaining, after interest has been paid as stated above, are considered as profits. These are then distributed among the stockholders according to the amount of business each has done with the company. The distribution may be made according to the number of bushels of grain which each has sold to the elevator. But, since very few elevators confine their business to the purchase of grain, but also sell a number of commodities, in most instances the profits will be distributed according to the money value of the business which each stockholder has done with the company, both purchases and sales being included in determining the value of the business. The plan of the Rochdale weavers is thus followed. This method of distributing profits will bring about the greatest loyalty to the company and encourage each stockholder to do as much business as possible with it. One company using this plan said that as a result of it the members seemed to compete with each other to see which could "boost" the hardest for his company. It also serves to discourage the purchase of stock by those who make the purchase merely for the sake of an investment without having a direct interest in the work of the company. The elevator is organized for the benefit of the man who has grain to sell, and the control of the enterprise, so far as possible, should be placed in his hands.

But profits do not constitute the goal which the farmers' elevator seeks to reach in conducting its business. It is the aim of such a company to pay the farmer the full market value for his grain. However, in order to insure itself against running its business at a loss it must make its purchases on a margin which would ordinarily allow it a small profit. But this margin will be less than that sought by a line or a privately owned elevator.

Another feature of the organization of a farmers' elevator company is the penalty clause. As this has been quite fully discussed

in connection with the opposition of the organized grain-dealers to farmers' elevators, it will be unnecessary to go into it again at this point. The editor of the *American Co-operative Journal* states that 80 or 90 per cent of the companies have it included in their by-laws in one form or another, but at the present time they do not attempt to enforce it. The farmers have become far better acquainted with the methods and needs of co-operation, so a penalty clause is not now often needed to keep them loyal to their own company.

Some doubt has also been cast upon the legality of the clause of late owing to the inability of a certain live stock association to have the clause enforced in a case¹ which came before the Supreme Court of Iowa in 1913. It is, however, believed by many leaders in the movement that an elevator company need no longer depend upon the penalty clause since this has largely outlived its usefulness. In commenting upon the case referred to above, Thomas McManus uses the following words:

If it is illegal and a crime, I plead guilty to the charges, as I happened to be one of the men at Rockwell twenty-four years ago who framed and incorporated that clause in our by-laws, which seemed to us the only remedy to save us from unscrupulous and unfair competition. I think, however, whether the ruling is just or otherwise, the "penalty clause" has served its mission, and while it saved hundreds of elevator companies from disaster and disruption, it is needed no more, as the farmers are becoming more and more educated in their loyalty and devotion to their own elevators.²

On the other hand, there are men who believe that the penalty clause is still needed. It is said that even though attempts are not made to enforce the clause, nevertheless it serves to deter some men who might yield to the temptation to sell their grain to a competitor offering a sufficient inducement in the way of a higher price. Be that as it may, it cannot be denied that the penalty clause has a far less important influence upon the success and general welfare of a farmers' elevator than it had ten years ago.

The business affairs of farmers' elevators have been managed very well. It has been their policy at all times to avoid speculation

¹ *Reeves v. Decorah Farmers' Co-operative Society*, 140 N.W. 844.

² *American Co-operative Journal*, VIII, 730.

and all unnecessary risks which have caused so many financial failures among grain-buyers. This cautious and conservative management has established the finances of these elevators on a sound basis and failures have occurred very rarely, and then only through the unfortunate selection of officers, usually of managers who have used the money of the farmers' elevator company in private speculations. One such failure through the dishonesty of a manager occurred in the case of a certain Illinois company. But the confidence of the shareholders in farmers' elevators as such was so great that the funds needed for continuing the work were almost immediately subscribed and the operation of the elevator continued. The honesty of farmers' elevator companies in their dealings is acknowledged by commission men who have handled their business. Mr. Stickney, with the Chicago commission firm of Lowell, Hoit & Co., states that he could not recall that he ever lost a dollar in all his dealings with farmers' elevators, while the same amount of business transacted with other firms would have involved a loss of \$20,000 to \$25,000.

C. INCIDENTAL FUNCTIONS OF FARMERS' ELEVATORS

Reference has already been made to the fact that farmers' elevators do not ordinarily confine their business solely to the buying of grain. Most companies also carry in stock various commodities which they offer for sale. We shall treat this phase of the work of farmers' elevators under the heading of "Incidental Functions," although in the case of many companies it becomes a very important part of the work.

When the farmers' elevator entered the field of coal-handling¹ it found a very difficult task before it. The retail coal trade was about as thoroughly organized and monopolized as the country grain-buying had been. The fight which the retail coal-dealers instituted against the farmers' elevators was only less severe than the one which had been conducted by the organized grain-dealers. The line of attack adopted by the coal-dealers was almost identical with that of the grain trade. The boycott again became the most

¹ According to the editor of the *American Co-operative Journal* about 90 per cent of the companies handle coal.

important instrument in the fight. The organized retail coal-dealers threatened to withdraw their business from any wholesale house which dared to fill an order for coal from any farmers' company. At one time they demanded¹ that thirty cents a ton be paid to their organization for all coal sold to a farmers' company. At an annual convention² of the Illinois Farmers' Grain Dealers' Association, Mr. F. A. Holmes of Chicago told how attempts had been made to buy coal for farmers' elevator companies from dealers who said they would be glad to fill the orders, but for fear of the boycott could not do so unless the farmers could take their entire output. They were afraid of the Northwestern Coal Dealers' Association. When any jobber would sell coal to a dealer who was not regular the official paper of the association would publish the fact. Attempts were also made to prevent jobbers from selling coal directly to schools, churches, and other large consumers.

The plans of the retail coal-dealers met with the same difficulties that had caused the failure of the boycott instituted by the grain trade. Not all wholesale coal-dealers could be prevented from making sales to farmers' elevators. The Harmon Coal Company could not be forced into submission and the Northwestern Co-operative Coal and Dock Company of Ashland, Wisconsin, was formed at this time. The farmers could not then be prevented from securing coal and the boycott had to be abandoned. The farmers' elevators had also by this time gained a considerable amount of experience in dealing with matters of this kind, and, furthermore, had acquired considerable means with which to carry on the fight. They were successful in their fight and continued to supply coal, it has been said, at a saving of from fifty cents to one dollar per ton.

A number of farmers' elevators have also undertaken to handle lumber, though not nearly as many have attempted this line of work. Opposition has also been met with here. On the occasion referred to above, Mr. Holmes said, after having discussed the situation in the coal industry:

¹ *American Co-operative Journal*, May, 1907, p. 98.

² Fifth annual convention, held at Bloomington, Illinois, February 26 and 27, 1908.

The lumber trade is the same. I have just returned from a conference with a big dealer in yellow pine lumber. I asked him if he could sell me lumber. He said he would have to sell me all his output or none. If farmers' grain elevator companies want to handle lumber they must get together and secure sufficient orders to take the entire supply of some dealer. Then you will have no more trouble than getting coal.

A few elevator companies have also undertaken to sell farm implements. Here also was found a strong organization ready to oppose, by foul means as well as by fair, any attempt by a farmers' company to sell machinery and charge only a small margin of profit for its services. The Farmers' Elevator Company of Gowrie, Iowa, started to handle machinery and found that its business was interfered with to such an extent that it became necessary to ask the court to issue an injunction restraining the implement dealers' association from interfering with its business. The same boycotting methods, with which the farmers had become all too familiar by this time, were also adopted by the implement dealers. These dealers went so far as to steal tags from goods shipped to the farmers' company. These tags were then used as evidence of irregular shipments.

Most farmers' elevators carry a line of brick, and also drainage tile in the sections where tiling is practiced. Flour and feed are also carried in stock by a large number of companies, and some also handle binder twine, salt and oils of various kinds, including lubricating oils, kerosene, and gasoline.

A number of farmers' elevator companies do not confine their purchases to grain, but also make purchases of live stock. In case they do not find a satisfactory market for the stock which they have to sell, the farmers will at times make use of the elevator company to dispose of their stock for them. Professor Hibbard of the University of Wisconsin estimates that one-eighth of the farmers' elevator companies in Iowa handle live stock.

D. RESULTS OF THE FARMERS' ELEVATOR MOVEMENT

It has been found that the price paid for grain has almost invariably been higher at a given point after the establishing of a farmers' elevator than it was before. This is true whether or not a line company has attempted to run a farmers' company out

of business by outbidding it. Practically the same price will be paid by a farmers' company at a point where it has no competition as will be paid at a point where a farmers' company has competition.

In the report of the Illinois Railroad and Warehouse Commission for 1903, referred to above, in the case of *D. H. Curry & Co. v. The Illinois Central Railroad Company* we find the following:¹

The evidence also shows that for many years prior to December, 1900, at the time the Farmers' Grain and Coal Company began business at Mason City, D. H. Curry & Co. had been in business at Mason City, and that before that time grain sold for from two to three cents a bushel less at Mason City than at other markets in that vicinity, but that after the Farmers' Grain and Coal Company began business their grain brought from one-half to two cents a bushel more at Mason City than it did at other markets in that vicinity.

Mr. Stickney, in testifying before the committee of the Interstate Commerce Commission, said:² "I think I have been at every station in Iowa where they have a co-operative grain company, and they agree that their organization has raised the price of grain at each station all the way from three to six cents a bushel."

In the article entitled "A Grain-Buyers' Trust,"³ Mr. C. H. Matson writes that the farmers at Solomon, Kansas, organized a co-operative shipping association and began business on June 15, 1901, with a penalty clause providing a one-cent penalty. The syndicate had been paying 48 cents per bushel for wheat and at once raised the price to 55 cents to drive out the farmers' elevator, which paid 52 cents. The farmers' elevator weighed the grain and it was sold to the syndicate, but the farmers gave their elevator one cent a bushel, which paid its expenses and netted a profit. At the end of three weeks the syndicate had locked its elevator and gone out of business at Solomon.

A large number of similar instances might be cited from authorities, which would not be questioned, to show that the market price of grain at the country elevators has been considerably increased by establishing farmers' elevators. It may, however, be sufficient

¹ *Report of the Illinois Railroad and Warehouse Commission*, 1903, p. 24.

² Senate Document, No. 278, 59th Cong., 2d sess., p. 17.

³ *Review of Reviews*, XXV (February, 1902), 201.

to quote the following statement made from the office of the attorney-general of Nebraska:¹ "Taking the crop of 1905 as a basis, the gain to the farmers as a result of the disruption of the trust amounts to \$2,380,868." This is the estimated annual gain to the farmers of Nebraska alone.

In all the various lines of work the farmers' elevators have sought to further the interests of their respective communities. They have sought only small gains and these have been turned back again largely to the men furnishing the business. The men dealing with them have received the full value for the articles they have sold, and have also made satisfactory purchases from the companies. The total saving to the farmers from carrying on all this work through their own organizations becomes enormously large. It has been estimated that farmers' elevators save at least three cents per bushel, as the margins taken by elevator men formerly were six to eight cents per bushel, and this will make not less than \$9,000,000 annually saved to Illinois farmers alone. The saving on coal was said to amount to from fifty cents to one dollar per ton. Considering the few states in the central west where farmers' elevators have been organized, \$50,000,000 would be a conservative estimate of the annual savings. The saving of this great sum means much to the individual farmers, and should also go far toward increasing the general prosperity of the farming communities.

The increased value of grain will also be reflected in an increase of land values. If the yield of an acre of land is thirty bushels, a fair estimate for corn and oats, the increased value of its product would be ninety cents annually, computed according to the lowest estimate by Mr. Stickney of the amount by which farmers' elevators have raised the price of grain, namely, three cents. If this sum be capitalized at 6 per cent the amount will be fifteen dollars, by which the value of an acre of productive soil will have been increased by the establishing of farmers' elevators. That this influence upon farm values has been exerted cannot be denied.

Authorities on the subject have stated that they would not be surprised if after a period of twelve or fifteen years we shall

¹ Quoted in *American Co-operative Journal*, February, 1906, p. 19.

find but a single elevator at each station, and that elevator owned by the farmers. The tendency apparently is in that direction at the present time. A large number of competing elevators have been purchased by farmers' companies, thus leaving the whole field in such localities to the farmers' elevators. This has not proved to be harmful to the men having grain to market since the farmers' elevators would not attempt to establish a monopoly price. The price paid for grain by a farmers' company is the highest price which it can afford to pay and competition would not serve to raise¹ the price. The presence of a number of competing elevators, however, would increase the total capital invested as well as the running expenses, thus necessitating a larger margin on each bushel of grain purchased in order to meet these greater expenses.

That there is such a tendency to decrease the total number of elevators with the establishing of farmers' elevators is made evident by the statistics given in Table IV. With an increase of 73

TABLE IV

SHOWING TOTAL NUMBER OF LOCAL WAREHOUSES IN OPERATION IN THE STATE OF MINNESOTA FOR FIVE YEARS*

Style of Elevator:	1906	1907	1908	1909	1910
Line houses.....	1,199	1,171	1,007	791	871
Independent houses.....	381	377	430	405	363
Farmers' houses.....	151	168	178	205	224
Total.....	1,731	1,716	1,615	1,581	1,458

* The figures are taken from an article entitled "Methods of Marketing the Grain Crop," by Siebel Harris, *Annals of the American Academy*, XXXVIII (September, 1911), 361.

¹ The fact of operation on a co-operative plan must, however, be emphasized in this connection since there is a tendency for any company organized as an ordinary corporation to fall away in the course of a few years from the high ideals which at first inspired it. It has been found that, in the case of a company organized as a corporation, the shares tend gradually to become concentrated in the hands of a few. The temptation then becomes very great for these few to manage the elevator for their own private interests, disregarding the interests of the farmers who have grain to sell. In such a case there has been merely a substitution of a monopoly by a few local men in place of the old monopoly by line elevator companies and ultimately the situation might develop into something very little better than the old conditions. This result does not by any means necessarily follow, but it is a possible result against which it would be well for farmers' elevator companies to guard themselves by organizing on the co-operative plan.

farmers' elevators in the state during this five-year period there was a decrease of 273 in the total number of elevators in operation. There is thus a tendency toward an eventual exclusive control of the field by farmers' elevators. This tendency need not give rise to apprehension lest the farmers' companies effect a monopoly quite as dangerous as the old grain combine. In the first place, their number, as shown by the above statistics, is tending to increase. And, in the second place, they are organized on a co-operative plan which is believed to be an effectual safeguard against monopoly in any form.

Curious as it may seem, the farmers' elevator has also in many communities developed important social functions. Although this is not an economic consideration it might not be altogether out of place to give it a brief mention. A custom has developed in many places that the local farmers' elevator shall arrange for annual picnics. These picnics are in the nature of general celebrations in which sports of various kinds are provided as well as good musical and literary programs. Among other numbers there will usually be an address which will consider the farmers' elevator movement, some farm problems, or political questions. Speakers will usually be provided by the state associations or by the *American Co-operative Journal*, which has become the official publication of the movement. Thus, in addition to exercising purely social functions, these picnics will also exert important educative influences.

The success of farmers' elevators has inspired farmers to co-operate and thus undertake other activities. In 1908 the Farmers' Co-operative Brick and Tile Company was organized at Mason City, Iowa. This company was largely an outgrowth from the farmers' elevator movement. The leaders in the brick and tile company were men with considerable experience and influence in the Iowa Farmers' Grain Dealers' Association. In 1909, at the state convention held at Sioux City, Iowa, there was formed the Farmers' Grain Dealers' Mutual Insurance Company of Iowa. The object of the company is to provide safe and cheap insurance. Another association was formed at Sioux Falls, South Dakota, in 1910. This was an association of co-operative lumber

dealers. Farmers in North Dakota and Minnesota are also in control of the Equity Co-operative Exchange at Minneapolis. Plans have also been laid for the construction of large terminal elevators at various grain centers, but as yet nothing definite along this line has been undertaken.

Thus we find that the farmers' elevator movement has met with marked success and has been an inspiration to the men actively engaged in it. One cannot be surprised that these men point to it with a feeling of considerable pride. The growth of the movement and its present condition are well expressed in the following quotation from the *American Co-operative Journal*:

From fifteen elevators in Illinois and seven in Iowa in 1903 with perhaps a dozen others scattered over the grain belt, the co-operative elevators have grown until today there are nearly 1,500 of them in the states of Iowa, Illinois, Minnesota, Nebraska, the Dakotas, and Kansas. They own and operate elevator property worth at least \$8,000,000. In Iowa they own and operate 70 lumber yards, carrying a stock to the value of three to four thousand dollars, doing a lumber business annually of more than one and three-quarter millions of dollars. They handle more than 200,000,000 bushels of grain annually, sell seven hundred to eight hundred thousand tons of coal, besides doing a retail business in other lines of \$10,000,000. They buy and sell in an open market. There is no discrimination against them.

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